30 Sep 2014

Net NAV per share

A Class: S$ 170.41

M Class: S$ 117.86

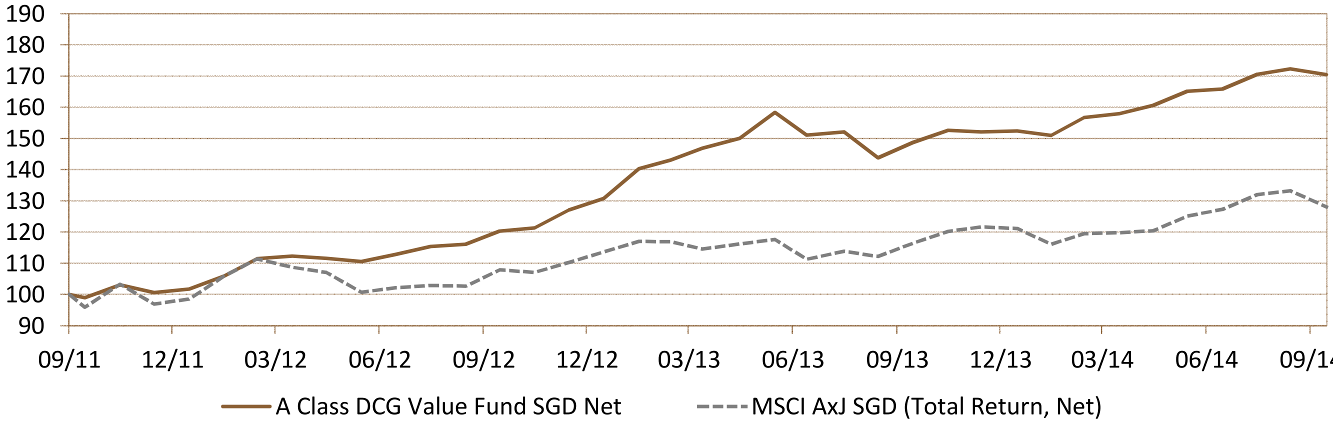
DCG Asia Value Fund

Fund Objective and Strategy

The investment objective of the Fund is to achieve long term capital growth through investments primarily in publicly listed and traded stocks and shares of companies in Asia ex-Japan. The Investment Manager employs a value investing approach in managing the Fund. Using a bottom-up approach, it will seek to identify from within the above mentioned investment universe, attractive long term investment opportunities that the Manager reasonably believes adequately satisfy stringent selection criteria in terms of quality and valuations.

Fund NAV and Performance (measured in SGD, net of all fees)

Fund NAV SGD Class (since inception, 16 Sep 2011)



2014	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
A Class	-1.0%	3.8%	0.8%	1.7%	2.8%	0.5%	2.8%	1.0%	-1.1%				11.8%
A-NAV S$	150.9	156.7	157.9	160.6	165.1	165.9	170.6	172.2	170.4				170.4
M Class	-1.0%	4.4%	1.0%	2.0%	3.3%	0.6%	3.3%	1.2%	-1.1%				14.6%
MSCI AxJ	-4.1%	2.9%	0.3%	0.5%	4.0%	1.7%	3.7%	0.9%	-3.9%				5.8%

2013	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
A Class	7.2%	2.0%	2.7%	2.2%	5.5%	-4.6%	0.6%	-5.4%	3.4%	2.6%	-0.3%	0.2%	16.5%
A-NAV S$	140.3	143.0	146.8	150.0	158.3	151.1	152.1	143.8	148.7	152.5	152.1	152.4	152.4
M Class										2.8%	-0.3%	0.3%	2.9%
MSCI AxJ	3.0%	-0.1%	-2.0%	1.4%	1.3%	-5.4%	2.3%	-1.5%	3.7%	3.2%	1.3%	-0.5%	6.5%

2012	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
A Class	4.1%	5.3%	0.7%	-0.6%	-0.9%	2.0%	2.3%	0.6%	3.7%	0.8%	4.8%	2.9%	28.6%
A-NAV S$	105.9	111.5	112.3	111.6	110.5	112.8	115.4	116.1	120.3	121.3	127.1	130.8	130.8
MSCI AxJ	7.4%	5.2%	-2.4%	-1.5%	-5.9%	1.4%	0.7%	-0.2%	5.1%	-0.8%	2.9%	3.1%	15.3%

2011	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
A Class									-1.1%	4.2%	-2.4%	1.1%	1.7%
A-NAV S$									98.9	103.1	100.6	101.7	101.7
MSCI AxJ									-4.1%	7.7%	-6.1%	1.7%	-1.4%

Fund Details

Portfolio Concentration

No. of holdings	63
Top 10 holdings	25.2%
Top 20 holdings	43.4%

Size (equities)

Small Cap (<US$1b)	36
Mid Cap (US$1b-$5b)	17
Large Cap (>US$5b)	10
Total	63

Top 5 Holdings

Concepcion Industrial Corp.
Hui Xian REIT
Universal Robina Corp.
Wasion Group
Sitoy Group

Fund Exposure

Country Exposure

HK/ China	41.2%
Singapore	13.7%
Philippines	10.5%
Indonesia	8.0%
Taiwan	3.7%
Malaysia	3.1%
Korea	2.8%
Thailand	2.4%
Vietnam	2.1%
Sri Lanka	1.6%
Cash	10.8%
Total	100.0%

Sector Exposure

Financials	26.8%
Consumer Discretionary	18.7%
Industrials	15.7%
Consumer Staples	8.4%
Materials	6.2%
Energy	5.1%
Information Technology	4.8%
Telecommunication Services	2.1%
Utilities	0.8%
Health Care	0.7%
Cash	10.8%
Total	100.0%

Risk / Return (since inception, measured in SGD net of all fees)

	Annualized Return	Annualized Std. Dev	Sharpe Ratio (RFR = 2%)	Sortino Ratio	Information Ratio	Peak to Trough
The Fund*	19.2%	9.0%	1.90x	4.04x	1.39x	-9.2%
MSCI AxJ	8.5%	11.7%	0.55x	0.86x	N/A	N/A

**Risk / Return figures above are applicable to A Class shares*

Valuation

	Trailing P/E	Trailing P/B	Indicative Dividend Yld	Median Market Cap (US$ mil)
The Fund*	13.0x	1.2x	3.0%	809
MSCI AxJ	12.0x	1.5x	2.7%	N/A

**DCG Asia Value Fund: valuation is calculated for the invested portion only*

Fund Information

Domicile: Cayman Islands

Fund inception date: 16 Sep 2011

Fiscal Year End: 30 June

Fund Manager: DCG Capital Pte Ltd

Fund Administrator: Portcullis Fund Administration (S) Pte Ltd

Custodian: Deustche Bank AG, Singapore Branch

Fund Auditor: Ernst & Young Solutions LLP

Tax Advisor: Ernst & Young Solutions LLP

Legal Counsel: Rajah & Tann LLP

Minimum Initial Investment: S$250,000

Minimum Subsequent Investment: S$100,000

Valuation Frequency: Once a month

Management Fee:

A Class Shares: 1.25% p.a.

M Class Shares*: Not applicable

Performance Fee:

A Class Shares: 12.5% of appreciation in NAV, subject to high water mark

M Class Shares*: Not applicable

**M Class Shares are only applicable to seggregated accounts managed by DCG Capital. Management and performance fees for M Class Shares are charged separately to avoid double-charging.*

Early Redemption Fee: (retained in the Fund)
3% in 1st year; 2% in 2nd year; 1% in 3rd year

Redemption Frequency: Once a quarter at quarter-end NAV, with 1 month notice

Subscription Frequency: Once a month at month-end, with 1 week notice

Contact Information

Phone: +65 6592 5720 **Fax:** +65 6737 3946 **Email:** info@dcginvest.com **Website:** www.dcginvest.com

Important Notice

Dear Investor,

Fund Performance

The Fund had a decent performance in the July to September quarter, with the NAV registering a 2.7% gain compared to a 0.6% gain for the benchmark (in S$ total return terms). For the month of September, the NAV fell 1.1% versus the benchmark's 3.9% fall. The MSCI Asia ex-Japan Index had in early September reached a high of 607 points for a gain of 4.6% from the end of June. Thereafter, a combination of interest rate worries due to stronger than expected US economic data and a marked slowing down of growth expectations in China and Europe pushed prices lower. In the last few trading days of the quarter, the Asian markets sold off after the Occupy Central protests in Hong Kong turned violent and grew even bigger, severely disrupting commerce and raising uncertainties as to how the standoff will end.

Within the region there was widely divergent performance among markets during the quarter with the smaller markets generally outperforming the larger ones. The three largest – South Korea, Hong Kong and Taiwan, were weakest while Philippines, Indonesia and Thailand outperformed with gains of between 5% to 7%.

Company updates

Hui Xian REIT, the owner of the Beijing Oriental Plaza which comprises of 1.4 million square feet of retail space and 3.3 million square feet of office space, reported that net property income for the first half of 2014 grew 8.1% y-o-y. Passing rents for retail space increased 7.6% y-o-y while office rents rose 11% y-o-y with occupancy rates remaining high at 99% and 95% respectively. For a major city like Beijing, office rents are still relatively low compared to cities like New York, London, and Singapore. With limited supply of prime Beijing commercial real estate, we expect rents at the Plaza to hold up well.

The Hotel segment, which contributes only 7% of overall net property income, is however still not doing well due to the anti-corruption campaign in China with net property income down 21% y-o-y. Occupancy rates at Grand Hyatt Beijing and Sofitel Shenyang Lido are at only 55% and 33% respectively. There has been a considerable scaling down of government events in China reducing business in the entertainment and hospitality sector significantly.

The REIT is currently trading at about RMB3.35 against the book value per share of about RMB5.44 and is yielding 7.5% with net cash on its balance sheet. This will insulate it from any interest rate rises unlike most other REITs which typically are leveraged about 30% to 40%.

Wasion Group Holdings is a leading manufacturer and supplier of energy measurement instruments and systems in China. The company produces smart power meters for both low and high-voltage power lines, data collection terminals which collect energy usage data from users, as well as fluid measurement equipment measuring gas, heat, and water consumption. Wasion also provides energy efficiency solutions to industrial users. 75% of its revenue is derived from two of China's large power grid companies: State Grid Corporation of China and China Southern Power Grid; about 20% is from non-power grid customers including operators in the utility sector such as water, gas and heat; and the rest from overseas customers.

The electronic power meter manufacturing market is very fragmented in China with over 60 companies. The largest ten, which includes Wasion, have a combined market share of about 70%. The industry is likely to undergo consolidation as weaker players may not be able to meet higher quality and functionality requirements for future procurements set by the two power grid companies. Wasion, which consistently ranks among the top winners in the power grid tenders thanks to its technical capability, product innovation and strong financial position, is likely to be among those gaining from consolidation.

Government spending on smart grid construction and growing demand for personalized smart power meters from electric power companies as well as from large and medium-sized industrial and commercial enterprises have been the main drivers for Wasion's earnings growth in the last few years. We believe that these growth drivers will continue. Penetration rate for smart meters in China is now roughly 60% and the government is aiming for 100% penetration rate by 2020. Capital spending on power smart grid in the ten-year period from 2010 to 2020 has been forecast to be approximately RMB400 billion.

The fluid measurement equipment business is also seeing strong demand ahead as tiered pricing of household water consumption has been introduced in major cities in China from 2014 and will be fully implemented by 2015. As such, installation of smart meters for fluid measurement is expected to accelerate to replace 30% of traditional meters by 2015, which implies a replacement market of over RMB7 billion.

A new growth driver for Wasion beyond 2015 will be from its Advanced Distribution Operations ("ADO") segment. This business segment provides the technology to increase input-output efficiency and reduce power blackouts. The recent acquisitions of Hunan Switchgear and Wuhan Smart Electrical will help Wasion to further strengthen its capability in ADO technologies.

Wasion's stock was sold down sharply in 2010 and 2011 following changes in power grid customers' procurement mix and tender requirements which hit Wasion's topline and bottom line. We started accumulating the stock in 2012 as we believed that changes in the power grid's procurement requirements, which included placing higher weightage on products' technical specifications, manufacturer's research and development ("R&D") capability and deliverables would put the company in a stronger competitive position. Wasion's R&D capability was further strengthened through its cooperation with Siemens since end-2012 and it had started shipping its products to Siemens' projects in early 2014.

In the first half of 2014, the company reported 19% y-o-y top line growth to RMB1.4 billion while net profit for the period grew 21% y-o-y to RMB203 million. The stock is currently trading at a reasonable 11x FY14 price-to-earnings ("PE") ratio and 1.6x price-to-book ("PB") ratio with average return on equity ("ROE") of 15% and very little debt on its balance sheet. Wasion's revenue and net profit over the past ten years have grown at 29% and 26% respectively. With a favorable industry outlook and strong technical capabilities we expect the company to continue growing steadily over the coming years.

CMA Logistics was incorporated in August 2001 as a three-way joint venture between Changan Chongqing Industry Group, Minsheng Industrials Group and APL Logistics. The company was listed in 2006 on the Growth Enterprise Market of the Stock Exchange of Hong Kong and subsequently transferred to the Main Board in July 2013. CMA Logistics provides professional third-party automobile logistics services as well as four-party supply chain integration management services. It has long-term cooperative relationships with almost a thousand automobile manufacturers, raw material suppliers and component suppliers such as Changan Auto, Changan Ford, Changan Mazda, Changan Suzuki, Beiben Trucks, Delphi, Visteon, Siemens VDO, Webasto, LIOHO, Baosteel, Chen Shin Tire, DuPont, Bentler and Foxconn.

Importantly, CMA Logistics also has a captive customer base in its parent, Changan Chonging Industry's related group of companies, servicing most of the group's logistics needs.

Ford is one of the best performing foreign brands in China in recent years. In the first half of 2014, Changan Ford's sales growth was over 40% y-o-y driven by strong demand for its popular models such as Kuga, Focus and Mondeo. Full-year 2014 sales are projected at about 820,000 units which represents a growth rate of 20% y-o-y. Changan Ford is adding capacity in November 2014 and in the first quarter of 2015 to a total of over 1.2 million units per annum, representing a capacity growth of over 50%.

Changan Automobile Group itself is also growing fast with 2014 sales projected at 550,000 sedans and SUVs, a growth rate of 40% y-o-y. Changan Mazda and Changan Suzuki are also expected to return to growth after sluggish performance in the past two years with the introduction of new car models such as Mazda CX-5, Axela (the New Mazda 3) and Suzuki SX4 S-Cross.

With CMA Logistics' key customers growing at significant pace in the next two to three years, we expect CMA Logistics to deliver decent growth, but at a more moderate pace due to capacity constraints. First half 2014 results showed an increase of about 27% at top line but bottom line was flat as margins were squeezed due to keen competition. In July, the company announced its acquisition of land use rights for RMB99 million in Luohang Industrial Park in the Jiangjin District of Chongqing for its new logistics facilities. This investment will free up its current capacity constraints and enable CMA Logistics to cater to strong demand from its customers.

With a market capitalization of US$182 million, CMA Logistics is trading cheaply at a trailing FY13 PE ratio of 4.8x and a PB ratio of 0.9x. It has net cash position of US$73 million and is paying out 20% of its net profit giving shareholders a 3.6% dividend yield.

Luen Thai Holdings, a Hong Kong listed garment and small leather goods contract manufacturer for international brands, reported disappointing first half 2014 results with a dismal 4% growth at top line to US$561 million and 9.4% drop in net profit to US$16.4 million. Net profit margin contracted by 0.5 percentage point to 2.9% due to low efficiency at its Cambodia factory and a decline in orders from major customers (Uniqlo and Coach). Orders from Uniqlo were down 20% y-o-y in the period as the company was cautious about growth outlook as it worked to clear excess inventories. Orders from Coach also declined by 20% y-o-y. Higher sales of accessories from Michael Kors and higher selling prices for Coach products helped to partially offset these negative comparisons. Although the efficiency issue at its Cambodia factory is likely to be resolved in the second half of the year, sales growth is likely to remain slow and Luen Thai's profit margin is likely to stay muted as the retail environment remains weak globally. Despite this, the stock looks undervalued trading at a PE ratio of 5x, PB ratio of 0.6x with a net cash position.

Concepcion Industrial Corporation ("CIC") is the leading manufacturer and distributor of household and commercial air-conditioners and refrigerators in the Philippines. The business started in 1962 when CIC obtained the licence from United Technologies to distribute Carrier air-conditioners in the Philippines. Subsequently, it obtained the licence for the Kelvinator brand of refrigerators in 1972 and established its own Condura brand in 1987. CIC has production capacity of 500,000 units of air-conditioning equipment and 300,000 refrigerators, and owns a nationwide distribution and after-sales service network covering 90% of Philippines' retail stores. Over a 50-year period, the company has built up a strong presence in the country making it the market leader in both air-conditioners and refrigerators with a market share of 38% and 26% respectively.

A strong pipeline of new commercial and residential buildings across the Philippines will create strong demand for CIC's products. Penetration rate in the Philippines is still very low across many home appliance categories: 6% for air-conditioner, 35% for refrigerator, 11% for washing machine and 32% in small kitchen appliances. With the economy growing at over 6% per year, a young population with rising disposable incomes, we expect CIC to deliver significant growth for a long period of time.

In 2013, CIC tied up with Midea, one of the leading household appliance manufacturers in China, to introduce Midea's household products to Philippines. In May this year, CIC announced another tie-up with United Technologies giving CIC a 51% stake in Otis E&M. This joint venture, which will install and provide after-sales service for Otis elevators, should boost sales and earnings as existing customers who are already users of CIC's air-conditioning systems are likely to also procure Otis elevators for their projects.

In the first half of 2014, CIC reported a very strong set of results with group revenue rising 28% y-o-y to PHP4.8 billion. Net profit after minority interest grew 45% y-o-y to PHP346 million thanks to net margin improvement of 0.8 percentage point to 11.8%.

We participated in CIC's IPO in November 2013 at PHP20 per share, 10x FY14 PE ratio and PB ratio of 3x with a ROE of 28.5%. The stock price has more than doubled since and at the current valuation of 20x and 17x FY14 and FY15 earnings respectively, we continue to like the company for its track record of building up household brands and proven execution capabilities.

Outlook

Over the quarter, we saw a number of economic data pointing to a marked slowdown of growth in Europe and China. In contrast, data from the US continue to point to moderate growth with the unemployment rate down to 5.9%.

The European economies continue to battle deflationary forces forcing European Central Bank ("ECB") President, Mario Draghi, to also resort to Quantitative Easing measures. Germany, the strongest economy among the core European economies, reported a surprising 5.7% contraction in August factory orders. The International Monetary Fund ("IMF") has warned that the Eurozone economy could well slip into recession again.

Both the IMF and World Bank have revised downwards their growth forecasts for the Chinese economy. In response to sluggish residential property sales, the Peoples' Bank of China and the China Banking Regulatory Commission announced a series of measures to support the property market. More stimulus measures can be expected from the Chinese government should growth continue to disappoint given that it has a lot more levers to pull.

In Japan, the economy contracted 7.1% during the second quarter period after the one-time boost to GDP growth in the previous quarter due to accelerated consumer buying ahead of the introduction of 5% sales tax in April. The yen has fallen to a six year low of almost 110 yen to the dollar and consumer price inflation remains well below the Bank of Japan's 2.0% target.

With all of these developments, the IMF has revised downwards its 2015 global growth forecast from 4.2% to 3.8%. Government bond yields have fallen to record low levels with German 10-year Bunds at 0.8% and US 10-year Treasuries yielding 2.2% while crude oil has fallen to the low 80s – signs that indeed we should be prepared for a slower-growth environment. Apart from global growth deficit worries, a couple of developments in the region bears watching. In Indonesia, the initial euphoria over the election victory of President-elect Joko Widodo has given way to doubts over how he will navigate through what is likely to be an opposition-controlled Parliament led by Prabowo Subianto, the vindictive defeated presidential candidate.

The Occupy Central protests in Hong Kong have shaken confidence over the long term future of the Special Administrative Region. It is highly unlikely that the protestors, representing probably only a minority, will get much of what they are seeking even with formal negotiations with the Hong Kong government. Hence, the risk of future business disruptions will need to be considered.

As we write, the global equity markets, including Asia's, have been going through a correction with the S&P 500 Index down more than 5% since end-September. Besides macro-economic concerns, there are also fears of the Ebola virus outbreak spreading. The correction in the region has nevertheless brought valuations down to much more attractive levels and offer opportunities for us to pick up some bargains.

Daniel Chan
Melvin Tan
Alexis Tran

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